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Iran and the West after the Nuclear Deal: High Hopes, Low Returns

ON 11 APRIL and 30 October 2017, RUSI and the British Council co-hosted two events aimed at discussing the state of Iran–West relations regarding the nuclear deal, known as the Joint Comprehensive Plan of Action (JCPOA). Taking advantage of the reopening of Iran–UK relations, these initiatives were significant as they constituted one of the first opportunities since at least 2011 for dialogue, public as well as private, on Iran–West relations between experts in Iran and the UK in London. The goal was to use the framework of academic collaboration to assess the current state of Iran–West ties, to explore the reasons why expectations of rapprochement and Iran’s reintegration into the international community had not been met, and to lay the groundwork for meaningful and enduring bilateral relations by addressing mutual misconceptions and increasing understanding of the two countries’ respective positions on sensitive issues. To achieve this, RUSI and the British Council brought together leading Iran- and UK-based scholars familiar with the issues at stake and who are able to provide insights into challenges and opportunities facing the normalisation of ties between Iran and the West.

As part of the programme, two public events were attended by about 200 people from academia, government, the private sector and research institutions. These public proceedings were followed by two closed-door workshops in which about 30 participants (UK- and Iran-based academics, as well as government officials) discussed the overall topic in greater detail.

The events were timely, particularly considering the election of US President Donald Trump, and characterised by lively and in-depth discussion.

This report summarises the major conclusions and talking points of the events, with a focus mainly on the high hopes raised after the announcement of the JCPOA in terms of economic and political developments between Iran and the West, and the low returns in this respect, especially over the past year. The concluding section summarises how participants envisioned the next stage of bilateral ties and what steps were perceived as helpful to avoid a reversal of the progress made.

The JCPOA and Upgraded Iran–West Ties

Since President Hassan Rouhani won his first election in June 2013 on a platform of moderation, pragmatism and Iran’s reintegration into the international community, Tehran has striven to improve its relations with regional and world powers. The resolution of the nuclear issue was seen as a crucial factor in facilitating rapprochement with the West.

As Iran and the international community worked towards a comprehensive agreement that could bring an end to the twelve-year dispute over Tehran's nuclear programme, a few bricks in the wall of mutual Iran–West distrust began to fall. For instance, from September 2013 onwards, Iranian officials engaged in direct talks with US officials for the first time since the establishment of the Islamic Republic in 1979.

This cautious rapprochement with Western countries intensified after the July 2015 JCPOA. The agreement drew a line under the long-running international dispute and led Iran to constrain its nuclear programme in exchange for the lifting of UN, US and EU nuclear-related sanctions.

UK- and Iran-based participants stated, especially during the first event on 11 April, that the JCPOA was robust – so much so that even sceptics had been unable to provide a better alternative. They also noted that it had indirectly led to an overall increase in mutual trust between Iran and the West, especially on issues related to the deal.

From a Western perspective, increased trust towards Iran was linked to the fact that over the past two years, the International Atomic Energy Agency (IAEA) had verified on nine occasions that Iran had been in compliance with the agreement.¹ This, combined with the policy advocated by Rouhani of normalising Iran's position within the international community and re-engaging with European states, resulted in the strengthening of bilateral ties.

One example of this is that, four years after Iran and the UK downgraded their diplomatic ties – in the wake of the attack on the British Embassy in Tehran in November 2011 – diplomatic relations were resumed; to the point that the two countries reopened their respective embassies in August 2016. Since then, senior officials from the two countries have met in London and Tehran several times to discuss steps to be taken to normalise and further improve bilateral ties. Two of the most significant visits were by then Foreign Secretary Philip Hammond, the first British minister to travel to Iran in more than a decade, and Foreign Minister Javad Mohammad Zarif, the first Iranian official to travel to London in more than twelve years.² More recently, in December 2017, Foreign Secretary Boris Johnson also travelled to Tehran to discuss various aspects of the Tehran–London relationship, in what constituted only the third visit to the Islamic Republic by a British foreign minister in the past fourteen years.³

The new atmosphere of collaboration and engagement between Iran and the West after the JCPOA also led to an increasing number of visits by Western political and trade delegations to Tehran and to mounting interest in opportunities to re-enter the Iranian market.

1. Jonathan Tirone, 'Iran Atomic Inspections Double with Deal Questioned by Trump', *Bloomberg*, 11 September 2017.

2. Saeed Kamali Dehghan, 'Visit by Iran's Foreign Minister Shows "Warming" Relations with UK', *The Guardian*, 5 February 2016.

3. *Financial Tribune*, 'Boris Johnson Discusses Economic Ties, JCPOA in Tehran', 10 December 2017.

Participants noted that Iran has experienced significant economic improvements since the signing of the agreement. World Bank figures indicate that following a growth rate contraction of 1.3% in 2015, Iran's final year under sanctions, the Iranian economy witnessed a 13.4% growth rate in 2016, bouncing back largely thanks to oil sales.⁴ While non-oil GDP growth was limited, at 3.3%, it achieved its highest growth rate in five years. Furthermore, participants pointed to developments, such as deals reached with Boeing and Airbus to supply aircraft to Iranian airlines, and the increase of the country's exports to Europe by 344.8% and imports by 27.8% in 2016⁵ as evidence of the JCPOA's economic benefits.

Nevertheless, the climate of hope did not fully translate into a new political and economic era for Iran and the West, and significant obstacles still hinder the ability of the two sides to undertake a full rapprochement. Some Iranian speakers said that the expectation was that the agreement would generate the momentum necessary to upgrade tactical cooperation between Iran and the West to the strategic level, but this did not happen.

The Future of the Deal and its Unintended Consequences

During the second event, on 30 October 2017, it became clear that the JCPOA is now viewed with less certainty than before. The deal's future has been brought into question by the election of Trump, who fiercely criticised the JCPOA on the campaign trail.⁶

According to participants, Trump has tried since the very start of his presidency to undermine the agreement by distorting the facts and purporting that Iran has failed to comply with the deal, clearly contradicting the IAEA. He refused to certify the nuclear deal in October 2017, only a few days before the event was held, bringing the deal's future into question. The situation is even more uncertain now given the stringent conditions presented to the EU by Trump, who has demanded that the EU fix the perceived weaknesses of the JCPOA by 12 May 2018. He has threatened to otherwise reintroduce those US nuclear-related sanctions lifted as part of the Iran nuclear deal.⁷

Iranian participants insisted that the US administration's narrative of the JCPOA must be challenged, as the agreement is functional, enjoys international support and is a multilateral rather than bilateral deal, with multiple actors being responsible for its implementation and survival. They stressed the role that Europe should play to ensure that Iran gets the benefits to which it is entitled through an increase in trade and investment in the Iranian market after the lifting of UN, US and EU sanctions. Even though the general view in Europe is that Iran

4. World Bank, 'Iran's Economic Outlook – October 2017', 11 October 2017.

5. European Commission, 'Countries and Regions: Iran', <http://ec.europa.eu/trade/policy/countries-and-regions/countries/iran/index_en.htm>, accessed 19 February 2018.

6. Yeganeh Torbati, 'Trump Election Puts Iran Nuclear Deal on Shaky Ground', *Reuters*, 9 November 2016.

7. Julian Borger, 'Iran Nuclear Deal: Sanctions Waived as Trump Begins Countdown to Keep US in', *The Guardian*, 12 January 2018.

needs the economic returns to underpin the JCPOA and remains committed to the deal, the perception in Tehran is that the willingness of EU countries to invest in Iran is strongly affected by the US position.

This was explained by the fact that the US is a significantly more important economic and political partner for Europe than Iran. However, the resulting view in Tehran is mainly that, despite elevated expectations in the aftermath of the nuclear agreement, the country is not getting the economic benefits it was hoping for in return for curbing its nuclear programme.⁸ The country, which had been locked out of global markets since 2010, when stringent sanctions were imposed, continues to experience severe difficulties in attracting foreign direct investment. Some participants contended that a key obstacle to Iran's economic revival and to European investments in Iran are the existing US sanctions, which lead financial institutions in Europe to fear any engagement with Iranian entities. They are wary of the price paid in the past, by banks such as BNP Paribas, for violating the measures in place.⁹ Structural issues in the Iranian economic system, such as outdated technology, a lack of transparency, corruption, and the dominant role of the Islamic Revolutionary Guards Corps, were highlighted by UK-based participants as further reducing the attractiveness for investors.

Iran's expectations of rapid improvement in living standards following the deal have led to public disillusionment. Participants acknowledged that the changes witnessed at the economic level may take time to filter into positive effects for the people. Even though most Iranians support the deal and the relatively moderate approach it represents, as indicated by Rouhani's re-election in May 2017, this discrepancy, specifically in the form of high unemployment, inflation and poverty rates, emerged as one of the triggers for the widespread protests which took place throughout the country from December 2017 to January 2018. The debate suggested that the lack of economic returns for Iran could thus prompt Tehran to cut back on certain commitments under the nuclear deal, especially if loopholes in the agreement are used to apply pressure on the country.

It's Not the Economy, Stupid!

While economic benefits certainly fuelled many of Iran's expectations following the announcement of the JCPOA, workshop participants provided a broader picture.

Iran-based speakers stressed that the logic behind the deal was not driven purely by the benefits linked to sanctions relief and that the agreement was perceived as a stabilising force in the region. They argued that the JCPOA was seen as a way for Iran to resolve strategic and security dilemmas with the West, as well as to strengthen its strategic capacity in the region. Further, it was described as representing an opportunity to modify Iran's image as a global

8. Aniseh Bassiri Tabrizi and Emil Dall, 'The Iran Nuclear Deal Two Years On: Will the Agreement Survive?', *RUSI Newsbrief* (13 July 2017).

9. Nate Raymond, 'BNP Paribas Sentenced in \$8.9 Billion Accord over Sanctions Violations', *Reuters*, 1 May 2015.

security threat, in line with Rouhani's goal for Iran to be viewed as a rational and accountable member of the international community. This matched with hopes in the West that, as a result of the agreement, Iran would increasingly become a peaceful and constructive member of the international system. Some participants suggested that former US President Barack Obama and Secretary of State John Kerry viewed the agreement as more than merely a nuclear deal, recognising it as a path towards a normalisation of US–Iran relations.

It was in this context that, in October 2015, several months after the nuclear deal was concluded, Iran was involved in talks on the Syrian crisis. Tehran was for the first time considered part of the solution, rather than just part of the problem regarding regional developments. Despite expectations, however, tensions between the West and Iran remain high on the regional front.

Iran-based participants provided an elaborated explanation of the country's decision-making process and strategic thinking. They claimed that Iranian foreign policy is influenced by concerns that their country was relatively isolated as a non-Arab, non-Sunni state in the region and was thus mainly driven by self-defence rather than expansionism. Furthermore, they argued that although Islamic discourse factors into Iranian foreign policy, nationalistic and revolutionary discourses are also at play; Rouhani is trying to combine them while maintaining a focus on pragmatic idealism.

They also argued that while Iran has yet to reach the status of regional hegemon, it has become more confident and strategically open since 2002, with greater attention paid to using its geopolitical advantages to enhance its status in the region. It was also noted that perceived shortcomings in recent US policy, as well as the discourse seen under the Trump administration, have further bolstered Iran's presence in the region. The connection of the country's security to the security of the whole region and the world, however, is, according to Iranian speakers, a rather recent development, which heavily influences the approach adopted and will most likely lead to continuity in Iran's foreign policy.

When explaining Iran's foreign policy in specific areas, participants mostly examined the security concerns of the country and how they entailed a 'legitimate' policy or stance. On Syria, for instance, speakers insisted that Tehran had legitimate interests to intervene in the first place, as it sought to prevent what within Iran was viewed as an attempt to overthrow the government there. When discussing the current involvement of the country in the conflict, some participants argued that Iran's objective was the reduction of violence and the war's transformation from a high- to low-intensity conflict, especially as the crisis in Syria had an impact on Iran's domestic security.¹⁰ Similarly, Iran's role in Iraq was described as chiefly political and aimed at furthering state formation and achieving what it perceived to be a balance of interests, even when backing armed elements within Iraq. Iran-based participants stressed how the country did not want Iraq to follow the Iranian model and stressed their awareness of the extent to which Iraqis were afraid of close ties between the two countries. More generally, when speaking about

10. Bethan McKernan, 'Tehran Attacks: Isis Claims Responsibility for "First Major Attack on Iran"', *The Independent*, 7 June 2017.

Iran's support for Shia groups, one of the arguments made was that, given Iran's rather weak economy, using 'friends' to deter regional threats away from the country had become one of the strategies adopted.

The response of UK-based participants was that, while Iran maintained its commitments under the JCPOA, it also continued to support government and non-state actors that challenged Western interests and disrupted regional peace and security. They highlighted that Iran continued to be an active player in several regional conflicts, often fighting on the opposite side to the West and not presenting a more cooperative attitude towards sensitive issues, such as the fate of Syrian President Bashar Al-Assad, its position towards Israel, or Tehran's support for Shia militia groups in Iraq and Lebanon. They questioned how this was in line with the claims that Iran was a defensive actor. While appreciating the presence of a nationalistic element in Iran's foreign policy, they argued that this was a recent development, signalling perhaps a progressive evolution of the country from a revolutionary state, promoting Iran's model of governance overseas, in favour of a more pragmatic posture that prioritises Iran's national interests, but not necessarily its ideology.

The overall conclusion was that, while both sides hoped for collaboration in a few areas, such as fighting Daesh (also known as the Islamic State of Iraq and Syria, ISIS) or addressing instability in Afghanistan, these were perceived as still challenging given the level of residual hostility and suspicion. Iranian participants ultimately stressed that, given that the country's military had experienced many wars and was more experienced than other states in the region, more coordination should be viewed by the West as positive; instead, it is viewed in negative terms. They argued that Iran's exclusion from related conversations resulted in further miscommunication and mistrust between the two sides, negatively affecting ties.

Therefore, despite the hopes on both sides that the JCPOA would lead to a broader change in the type of relations between the two sides, progress, especially over the past year, has been limited and risks reversal. Trump's election and his administration's approach towards Iran have only created further challenges. The risk now is not only that the nuclear deal will not translate into a broader rapprochement between Iran and the West, but that even the small achievements following the implementation of the deal will unravel, leading to a renewed escalation of tensions.

Moving Forward

On paper, the JCPOA has reduced obstacles to trade as well as cultural and educational exchanges with Iran. Participants at both events highlighted opportunities for Iran and Europe to capitalise on this and develop stronger ties. Iran's relations with China, for instance, have already improved, and while they remain largely economic, some participants indicated that they are becoming increasingly political and cultural. The number of Chinese language institutions in Iran is growing and there are expectations that China will look to secure maritime trade routes via the country.

Iran was depicted as especially keen to rebuild ties with Europe both as an alternative to powers such as Russia and China as well as to ensure that Europe does not follow Trump's hard line. However, Europe's reaction to difficulties with the implementation of the JCPOA and to the current US discourse will be key to sustaining this positive outlook among Iranians.

Iran-based participants stressed that, despite the acknowledgement of the key role played by Europe in bringing the US to the table when negotiating the JCPOA, suspicions regarding its long-term intentions remained high. While using engagement in dealing with Iran, Europe is in fact perceived as effectively seeking the same ends as containment – rephrased at the workshop as 'contagement' – or ultimately caving in to pressure exerted by the US. To prove to Iranian counterparts that this is not the case, according to participants, Europe needs to further bolster bilateral ties and strengthen mutual understanding. Some suggested that Europe should, for instance, look at places where the US thinks there is no opportunity for improvement of Iran–West ties and try to change the narrative.

Discussing the UK, participants noted that the overall perception is not always positive, especially considering the strong economic and political relations with regional rivals, such as Saudi Arabia and the UAE. It is assumed, therefore, that the UK's post-Brexit economic policy will focus on shoring up these traditional partnerships outside the EU, at the expense of any dealings with Iran. Moreover, the UK is seen as being on the harder end of the policy spectrum towards Iran compared with other European countries, with participants suggesting it is likely to become even harder post-Brexit. The lack of improvement in economic exchanges in the aftermath of the JCPOA, especially compared with countries such as Italy, France and Germany, was brought up as an example of the lack of capital invested in establishing a credit line or to ensure investments and trade deals with Iran. Nevertheless, participants believed that Iran–UK relations could be improved, as Britain, even more than other European countries, was regarded as a potential mediator between the US and Iran, especially on the JCPOA.

On the other hand, participants were pessimistic about the possibility of any improvement in ties between Iran and the US. This was due to the lack of exchanges and people-to-people connections between the two countries, and because of a more limited mutual understanding of the respective views.

Iran-based participants noted that Supreme Leader Ali Khamenei believed it was wrong to rely on the West and especially the US, as they were untrustworthy, and could lead to losing other friends in the region. However, he regarded the JCPOA as a test for ties between Iran and the US and other Western states. The uncertainty posed to the future of the agreement following Trump's election only increased Khamenei's mistrust towards US aims and strategies in the region, stalling diplomatic endeavours and potential for partnership.

The UK-based participants, on the other hand, stressed that any policy adopted by Iran gratuitously alienating the US would make it more difficult for European states to maintain good relations and the overall stance based on engagement.

Participants stressed the potential negative repercussions of the collapse of the JCPOA for regional policy. Iran-based participants argued that the mere perception that the US and Europe were not genuine in their implementation of the agreement would influence Iranian behaviour in the region, such as its dealing with Daesh. This would lead the country to manage, but not defeat, the group, and thus create significant problems for international peace and security.

The two events identified specific avenues that both sides found useful in facilitating positive Iran–West relations in the medium to long term. Participants stressed the need to strengthen channels of dialogue to help address misconceptions and negative perceptions of the other side and to set a positive tone emphasising collaboration, accurate information and frank exchange. People-to-people interactions, as well as partnerships among experts and policymakers, were deemed to be key in this sense as a useful tool to build a more accurate picture of Iran among opinion-makers in the West, and vice versa.

This is in line with the goal established at the outset by the joint British Council–RUSI events. Based on the feedback, UK-based participants could gain first-hand, on the ground perspectives about the key political, social and economic currents driving relations with the West inside Iran, as well as the challenges and opportunities moving forward. Similarly, the Iranian academics were able to hear, directly from UK-based academics and policymakers, the UK perspective on the JCPOA and its economic and political implications, as well as concerns over Iran’s activities in the region. Together, the participants managed to better understand some of their different stances in Iran–West relations, address some misperceptions, and identify key points of risk and resilience in the relationship. The workshops also enabled the establishment of connections that resulted in trips to Tehran by some of the UK-based participants, which took place in January 2018 and enabled a follow-up discussion on security and foreign policy issues.

The limited rapprochement between Iran and the West over the past two years provides encouraging signs for the future of bilateral ties and offers opportunities to capitalise on political developments. These types of initiatives are crucial to building a lasting relationship, especially at a time of uncertainty and when escalation is a palpable risk.

It is with this in mind that RUSI and the British Council plan to continue hosting joint conferences and workshops, inviting scholars from Iran and across Europe (with a particular focus on the UK) to provide a venue in which the exchange of views can continue to take place, with the hope that, in the long run, this will help strengthen mutual understanding and bilateral ties.

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